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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT	Docket No. R2018-1

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(October 26, 2017)

The National Postal Policy Council[1] hereby respectfully submits these comments on the Postal Service's notice of rate adjustments for market-dominant products.[2] NPPC will address the rate adjustments generally, and certain workshare discounts.

I. THE OVERALL RATE ADJUSTMENTS

Current law allows the Postal Service to raise rates, per class, subject up to the amount of inflation as measured by the Consumer Price Index, whether it is advisable to do so or not. In this proceeding, NPPC recognizes that the Postal Service intended for the adjustments in First-Class Automation rates to be modest. The average increase for the Automation Letter rates that NPPC members primarily use is 1.585 percent, below the overall average increase.

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[1] The National Postal Policy Council is an association of large business users of letter mail, primarily First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, insurance, and mail services industries.

[2] *Notice of Market-Dominant Price Adjustment*, Docket No. R2018-1 (Oct. 6, 2017) ("*USPS Notice*"). The Commission gave notice of these adjustments in Order No. 4153, 82 *Fed. Reg.* 48285 (Oct. 17, 2017).

Commendably, the Postal Service retained the current differential between the Metered Mail and stamp rates in Single Piece First-Class Mail.

NPPC appreciates the Postal Service's tacit recognition of the desirability of moderating the size of the increases imposed on the profitable Presort Letters product. Nonetheless, given that the Presort Letters product already labors under a cost coverage of more than 330 percent[3] and has suffered an unexpected volume decline this year, it is reasonably possible that no increase, or even a price decrease, would have been wiser.

Indeed, some First-Class Presort mailers will experience what is (for them) a materially larger increase (than the product average) because the Postal Service will be discontinuing the promotional discounts in First-Class Mail. This additional increase will affect the mailers that have made the most of the opportunities offered by the discounts to explore new and innovative uses of the mail, an outcome seemingly counterproductive to the purpose of the promotions. Although the "cap space" created by the elimination of promotions (0.192 percent or $50 million)[4] may seem relatively small compared to the entire revenues from First-Class Mail, the impact on mailers affected directly by this change may be significant.

These members have told NPPC that eliminating the promotions will harm both them and the Postal Service in two ways. First, the end of the promotional discounts will dampen mailers' ability and willingness to try potentially valuable

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3 Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2016*, Appendix A.2 (Mar. 31, 2017).

4 *USPS Notice* at 29.

innovations. Second, mailers inform NPPC that tightened budgets mean that they will not be able to increase their mailing budgets to offset the lost promotions. Instead, they will simply have to mail less. (The elimination of the promotions in USPS Marketing Mail will have a similar effect as well.) Unfortunately for the Postal Service, mail that leaves the postal system seldom returns.

It is disappointing that the November 2016 “Resolution of the Board of Governors 16-18” (appended to the Postal Service’s *Notice*) does not adequately consider the effect of the promotions today or take into account their long-run value to the Postal Service. A more contemporaneous action of Governors – based on postal trends observable today -- might well have recognized the value today of the promotions to the Postal Service in retaining, and in some situations, increasing volume. However, the current complete absence of any Governors precluded such consideration. The vacancies have also undermined mailer confidence in the predictability and certainty regarding price adjustments that the reforms in the 2006 Postal Accountability and Enhancements Act was intended to promote.[5] More generally, the absence of any Governors and of a statutory quorum of the Board casts a shadow on the Postal Service’s ability to adjust rates in the not-so-distant future, or to take any other actions requiring either Governors or a Board quorum.

[5] Mailers’ concerns are broader than simply matters of timing or Governors’ pricing judgments. Their inability to predict and have any certainty about the outcome of the 10-year review, Docket No RM2017-3, appears to be the primary factor undermining their confidence at this time.

II. WORKSHARE DISCOUNTS

Pursuant to the Commission's directive in the Annual Compliance Determination for Fiscal Year 2016, the Postal Service adjusted a number of workshare discounts so that they pass through no more than 100 percent of the 2016 *ACD*'s estimates of costs avoided. In doing so, the Postal Service addressed the Commission's directive, but missed an opportunity to set certain important rates at even more economically efficient levels.

In particular, the Postal Service left unchanged the passthrough for Automation Mixed AADC Letters at 79.3 percent[6] and set the passthrough for Automation 5-Digit Letters at 88.2 percent (3 cents compared to 3.4 cents costs avoided). The new 5-Digit tier passthrough is an improvement (it was at 67.6 percent in the *ACD FY2016*[7]), but it still falls short of sending an economically efficient pricing signal. It also means that the Postal Service will not be charging a compensatory price for sorting to the 5-Digit level in 2018.

At the Automation AADC Letter tier, the Postal Service complied with the Commission's directive[8] by reducing the discount from the 111 percent passthrough measured in the *ACD*. The Postal Service shrank the discount from 2 cents to 1.6 cents. However, the new discount is less than the avoided costs of 1.8 cents, meaning that the Postal Service missed an opportunity to set this

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[6] Postal Regulatory Commission, *Annual Compliance Determination Report Fiscal Year 2016*, at 12 (Mar. 28, 2017) ("*ACD FY2016*").

[7] *Id*.

[8] *Id*., at 13.

discount at an efficient level. The *USPS Notice* does not explain why it chose not to do so.

Finally, NPPC members make substantial use of USPS Marketing Letters, mostly at the Automation 5-Digit tier, and therefore have an interest in related tiers, such as the Automation Mixed AADC Letters discount which serves as the ultimate starting point for the AADC and the 5-Digit prices. In the most recent Annual Compliance Determination, the Commission approved the current Automation Mixed AADC Letters passthrough of 800 percent on the grounds that the discount promotes operational efficiency by encouraging mailers to apply Intelligent Mail barcodes, citing 39 U.S.C. §3622(e)(2)(D). *ACD FY2016* at 25.

The Postal Service now is reducing the passthrough to 650 percent. It properly justifies this level on the basis of promoting operational efficiency by encouraging the use of IMbs. *USPS Notice* at 16-17. The Postal Service also notes, as the Commission also found in the most recent ACD (at 39), that the "Automation Mixed AADC Letters cost avoidance has been volatile over the last several years." *USPS Notice*, n.25. Reducing the passthrough further at this time also would mean higher price increases, which could result in rate shock for mailers.[9] It also would have the unfortunate trickle-down effect of raising the prices for all of the more workshared tiers below.

The Automation Mixed AADC passthrough accomplishes the triple objectives of reducing the passthrough, maintaining the mailer incentive to apply

[9] Setting the passthrough at 100 percent (all else being equal) would result in an increase of nearly 4 percent at the Automation Mixed AADC tier alone.

IMbs, and avoiding rate shock. NPPC believes that the Postal Service has properly relied on the rate shock exception.

III. CONCLUSION

For the foregoing reasons, the National Postal Policy Council respectfully urges the Commission and Postal Service to take these comments into consideration.

Respectfully submitted,

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